

VZCZCXYZ0000  
RR RUEHWEB

DE RUEHME #0635/01 0622248  
ZNR UUUUU ZZH  
R 032248Z MAR 09  
FM AMEMBASSY MEXICO  
TO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE  
RUEHC/DEPT OF INTERIOR WASHINGTON DC  
RHMFISS/DEPT OF ENERGY WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RHEHAAA/NSC WASHINGTON DC

UNCLAS SECTION 01 OF 03 MEXICO 000635

SENSITIVE  
SIPDIS

STATE FOR WHA/MEX, WHA/EPSC  
STATE FOR L/OES KIM  
STATE FOR EB/ESC MCMANUS AND DUGGAN  
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/GWORD  
USDOC FOR ITS/TD/ENERGY DIVISION  
TREASURY FOR IA (ALICE FAIBISHENKO)  
DOE FOR INTL AFFAIRS ALOCKWOOD, GWARD AND RDAVIS  
DOI FOR MMS ORR AND KARL

E.O. 12958: N/A  
TAGS: [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [MX](#)  
SUBJECT: TRANSBOUNDARY RESERVOIRS -- WHAT IS MOTIVATING  
MEXICO?

REF: A. A. 2008 MEXICO 2657  
[1](#)B. B. 2008 MEXICO 3014

MEXICO 00000635 001.8 OF 003

[1](#)1. (SBU) Summary: For political, economic and strategic reasons, Mexico is ratcheting up efforts to engage the USG on a possible treaty governing transboundary reservoirs. We expect that this topic will be raised by the GOM to senior levels of the administration in an effort to create momentum. Politically, the GOM is under pressure to preserve Mexico's oil reserves. Leading Mexican papers routinely print articles erroneously claiming that drilling on the US side of the Gulf of Mexico is siphoning off huge quantities of Mexican oil. The GOM is also under pressure from the Mexican Congress which has asked the GOM to take quick action. Economically, rapidly falling oil production is pushing the GOM to demonstrate what Mexico is doing to address the situation. Strategically, the GOM may try to slow exploration on the US side of the boundary while negotiations proceed. If a treaty is concluded, PEMEX may see engagement with international oil companies in the deep waters of the Gulf of Mexico as an opportunity to gain hands on experience quickly. Private sector representatives question why the GOM is putting such emphasis on the transboundary fields which they feel will likely be small in number and size. They acknowledge, however, that collaboration between the international oil companies and Pemex on transboundary fields could ease the way for future Mexican energy reforms. End Summary.

-----  
From the Backburner to the Priority List  
-----

[1](#)2. (SBU) During bilateral consultations under the Western Gap Treaty and the Treaty on Maritime limits, the GOM formally proposed on August 20 opening negotiations with the USG on an agreement to regulate the exploitation of transboundary - both maritime and land - reservoirs. (REF. A) Mexico provided a diplomatic note containing a formal proposal to the State Department on September 10, 2008.

[1](#)3. (SBU) The issue remained quiet until January 2009 while GOM officials were busy securing congressional ratification

for the Calderon Administration's energy reform package. There was also a general agreement amongst our interlocutors that the issue would not get much traction within the USG until the new Administration came into office. GOM officials are now eager to meet with us to discuss their proposal and options for moving the discussion forward.

¶4. (SBU) Econoff has met with government officials, oil industry representatives and other experts to discuss the motivation and objectives behind the Mexican proposal. Although there is a strong political dimension to the GOM request, Mexico appears to also have a strong economic and strategic interest in engaging the US on transboundary reservoirs sooner rather than later.

-----  
The Political Dimension - Responding to Congress  
-----

¶5. (SBU) On a political dimension, the GOM created concerns and expectations with the Mexican Congress about transboundary reservoirs that it must now address. During 2008, the GOM actively used the "popote" or straw-effect - an erroneous argument that claims wells drilled by international companies on the US side of the boundary could siphon off significant oil reserves from the Mexican side of the border - to highlight the urgent need for deep energy reforms in Mexico. Maps comparing heavy drilling activity on the US side of the boundary to the lack of any developments on the Mexican side were used to shock the Mexican public and congress into action. The campaign resonated with the Mexican public and created an almost hysterical reaction. Alarmist articles routinely appear in the Mexican press making false claims that international oil companies use directional drilling to siphon off reservoirs on the Mexican side of the boundary. One IOC representative told ECONOFF a

MEXICO 00000635 002.5 OF 003

respected Mexican contact made the absurd claim that companies on the US side of the boundary had engaged in directional drilling up to 30 miles into Mexican territory.

¶6. (SBU) The "popote" argument caught the attention of several influential Mexican legislators including former Foreign Minister and now Senator Rosario Green and former PRI presidential candidate and Senator Francisco Labastida. The Mexican Congress directed the GOM to approach the USG expeditiously with a formal proposal to negotiate a transboundary treaty. The Congress also included a provision in the energy reform bill which provides that transboundary fields could be exploited in accordance with the provisions of a bilateral treaty that had been ratified by the Mexican Senate.

¶7. (SBU) Interest from the Mexican Congress continues to be a factor in the discussions. By early January 2009, Energy Secretary Kessel and Pemex Director General Reyes Heróles were asked to update the Mexican Congress on the status of the negotiations with the USG. At that time, Kessel stated publicly that the GOM had submitted a formal proposal to the USG in September 2008 and was waiting since that time for a USG response. Kessel assured Congress that the GOM expected more momentum on the issue now that a new USG Administration has entered office. Privately, GOM officials tell us that Kessel and Foreign Minister Espinosa may raise this issue with their new USG counterparts to try to move discussions forward.

-----  
Falling Production and Energy Security  
-----

¶8. (SBU) There are also strong economic and strategic motivations behind the Mexican position on the transboundary debate. With production falling rapidly, Pemex is under pressure to find and exploit new reserves. Earnings from oil

exports are the largest source of Foreign Exchange and oil revenues account for over one third of the federal budget. Entering into a bilateral agreement could allow Pemex to work collaboratively with international oil companies on exploiting transboundary oil fields, thus gaining experience and sharing risk while addressing declining Mexican production. Mexican officials claim that the best prospects - up to 50% of possible reserves - lie in the deep waters of the Gulf of Mexico. Pemex has conducted some initial seismic studies in the area, and has drilled some exploratory wells at depths slightly more than 1,000 meters but with little success. (On the US side of the boundary, international oil companies are planning to drill at depth of over 4,000 meters by the end of the decade.)

¶9. (SBU) Pemex does not have the technology, experience nor money to explore and exploit the deep waters of the Gulf of Mexico alone. Some service companies could provide the needed technology, but risk-sharing for expensive deep water exploration would not be part of the equation, i.e. taking the risk of drilling in return for a piece of the action. In the long term, collaboration with IOCs on the transboundary fields could also promote a deeper reform of the Mexican energy sector by demonstrating the benefits of joint ventures.

-----  
Private Sector Views  
-----

¶10. (SBU) During separate and informal conversations with Econoff, representatives of several IOCs with a presence in Mexico opined that the negotiation of a transboundary treaty would be a positive development. A treaty would provide them with legal certainty for their operations on the border and could provide greater commercial opportunities.

¶11. (SBU) The IOCs we spoke to are positioning themselves to take advantage of long-term commercial prospects in Mexico and are convinced that sooner or later the GOM will have to open its energy sector to foreign investments. Several of

MEXICO 00000635 003.4 OF 003

these companies have leased blocks in the Gulf of Mexico along the boundary with Mexico and are actively exploring in this area. These companies made it clear, however, that they would not jeopardize their long term interest in Mexico by unilaterally exploiting a reservoir they confirm is transboundary. (Note: Our contacts acknowledge that other oil companies that do not have the same long term interest in the Mexican oil sector may take a more aggressive stance.) Our interlocutors added that if they discover a commercially viable transboundary field they would want to work collaboratively with Mexico. However, if formal negotiations a bilateral agreement do not begin until that time, the IOC stands to lose significant time and money before the field can be exploited.

¶12. (SBU) Our interlocutors pointed out that given the geology of the transboundary area - they expect both the number and size of transboundary fields to be small. From a commercial perspective, they are surprised that the GOM has put emphasis on concluding an agreement with the US on transboundary treaties. The IOCs want to ensure that Mexico is not using the pretext of negotiating a treaty simply as a tactic to delay oil exploration on the US side of the boundary. Any Mexican effort to use negotiations as a pretext for extending the moratorium on drilling in the Western Gap buffer zone to other parts of the boundary would be a non starter for the IOCs.

¶13. (SBU) One IOC representative was surprised that Mexico had proposed negotiating an agreement that would cover both potential maritime and land reservoirs. He concluded that it is too late and too complicated to address land reservoirs given the amount of gas production activity on the US side of

the boundary. He agreed when Econoff suggested that including land reservoirs could just be part of Mexico's negotiating strategy and not reflect any genuine interest on the GOM's side.

¶14. (SBU) Comment: Since the inauguration of the Obama Administration, Mexican officials have clearly signaled their interest in following up on the August 2008 proposal to engage the USG in a negotiation on transboundary reservoirs. The Mexican motivations are varied and complex. The GOM initially used fears of the "popote" effect to secure a deep energy reform and must now address the consequences of having raised it - both to the public and to congress. On a separate level, however, GOM officials see transboundary reservoirs as an vital opportunity to address declining Mexican oil production and provide Pemex an opportunity to gain valuable experience from partnering with IOCs. At best, over the long term, Mexico could use successful bilateral engagement on transboundary reservoirs as an argument to pry open the Mexican energy sector to foreign investment. Whatever the Mexican motivations, it would be in the USG interests to engage at least in preliminary discussions. Refusing to discuss the GOM proposal would fuel arguments that foreign companies are already siphoning off Mexican production. Engaging with Mexico would allow us to establish closer ties with Mexican counterparts in the hydrocarbons area and could add to a deeper understanding of positions and policies on both sides. If these discussions promote a future opening of the Mexican oil sector to foreign participation, it would be a positive development for all involved.

Visit Mexico City's Classified Web Site at  
<http://www.state.sgov.gov/p/wha/mexicocity> and the North American  
Partnership Blog at <http://www.intelink.gov/communities/state/nap/> /  
BASSETT